

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 804 - SB 741**

March 13, 2017

**SUMMARY OF BILL:** Phases out the state sales and use tax on the retail sales of food and food ingredients, by reducing the tax rate by 0.5 percent each year, beginning on January 1, 2018, until the tax is fully eliminated beginning on January 1, 2027. Eliminates the state and local sales and use tax on the retail sale of diapers, feminine hygiene products, and over-the-counter drugs otherwise subject to the tax, effective July 1, 2017.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue –\$83,161,900/FY17-18**

**\$142,861,400/FY18-19**

**\$202,560,800/FY19-20**

**\$262,260,300/FY20-21**

**\$321,959,700/FY21-22**

**\$381,659,200/FY22-23**

**\$441,358,600/FY23-24**

**\$501,058,000/FY24-25**

**\$560,757,500/FY25-26**

**\$621,897,200/FY26-27**

**\$653,187,200/FY27-28 and Subsequent Years**

**Decrease Local Revenue – \$23,195,500/FY17-18**

**\$26,076,100/FY18-19**

**\$28,956,700/FY19-20**

**\$31,837,200/FY20-21**

**\$34,717,800/FY21-22**

**\$37,598,300/FY22-23**

**\$40,478,900/FY23-24**

**\$43,359,400/FY24-25**

**\$46,240,000/FY25-26**

**\$204,130,300/FY26-27**

**\$360,580,300/FY27-28 and Subsequent Years**

Assumptions related to the sales tax on food and food ingredients:

- Based on sales tax collection data from the three most recent fiscal years (FY13-14, FY14-15, and FY15-16), state sales tax collections derived from the retail sale of food and food ingredients are estimated to be approximately seven percent of total state sales tax collections.
- The current Fiscal Review Committee estimate for total state sales tax collections in FY17-18 is \$8,940,000,000.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(c)(2), revenue generated from 0.5 percent of the sales tax rate on the retail sale of food and food ingredients shall be deposited in the state General Fund and earmarked for education purposes.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients are estimated to be \$625,800,000 ( $\$8,940,000,000 \times 7.0\%$ ) in FY17-18.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.1427 percent [ $(4.5\% / 5.0\%) \times 4.603\%$ ].
- Local revenue pursuant to the state-shared allocation is estimated to be \$25,925,017 ( $\$625,800,000 \times 4.1427\%$ ) in FY17-18. Net state revenue is estimated to be \$599,874,983 ( $\$625,800,000 - \$25,925,017$ ).
- State and local sales tax revenue generally increase over the years due to multiple economic factors, including, but not limited to, inflationary factors, increases in population and increases in disposable income. For the purposes of this fiscal analysis and due to the fact that tax rate changes are occurring over multiple years it is assumed that the abovementioned numbers for state and local sales tax collections would remain constant, rather than increase, in subsequent years under current law; however, no adjustments are made for any offsetting impacts of tax revenue losses resulting from this bill from tax savings that would be spent in the economy on non-food sales-taxable goods and services.
- Calculations used in this fiscal note for state and local sales tax collections after the effective date of this bill have been omitted for the purpose of brevity. However, these calculations are on file with the Fiscal Review Committee staff and can be provided upon request.
- The proposed bill is estimated to result in following decreases in state and local revenue:
  - FY17-18: \$29,849,721 state; \$1,440,279 local;
  - FY18-19: \$89,549,164 state; \$4,320,837 local;
  - FY19-20: \$149,248,606 state; \$7,201,394 local;
  - FY20-21: \$208,948,049 state; \$10,081,951 local;
  - FY21-22: \$268,647,491 state; \$12,962,509 local;
  - FY22-23: \$328,346,934 state; \$15,843,066 local;
  - FY23-24: \$388,046,377 state; \$18,723,624 local;
  - FY24-25: \$447,745,819 state; \$21,604,181 local;
  - FY25-26: \$507,445,262 state; \$24,484,738 local;
  - FY26-27: \$568,584,983 state; \$182,375,017 local; and

- FY27-28 and subsequent years: \$599,874,983 state; \$338,825,017 local.

Assumptions related to the sales tax exemptions and total impacts:

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- There are approximately 242,500 children in Tennessee under the age of three, who are estimated to use an average of 6 diapers per day over the 3-year period, for a total of 531,075,000 diapers per year (242,500 x 6 x 365).
- The average cost per diaper is estimated to be \$0.20.
- The recurring decrease in state sales tax revenue, beginning in FY17-18, is estimated to be \$7,166,124  $[(531,075,000 \times \$0.20 \times 7.0\%) - (531,075,000 \times \$0.20 \times 7.0\% \times 3.617\%)]$ .
- The recurring decrease in local sales tax collections, beginning in FY17-18, is estimated to be \$2,924,301  $[(531,075,000 \times \$0.20 \times 2.5\%) + (531,075,000 \times \$0.20 \times 7.0\% \times 3.617\%)]$ .
- There are approximately 1,750,417 women in Tennessee between the age of 15 and 55.
- Assuming that each woman spends approximately \$120 each year on feminine hygiene products, total sales of such products are estimated to be \$210,050,040 (1,750,417 x \$120).
- The recurring decrease in state sales tax revenue, beginning in FY17-18, is estimated to be \$14,171,677  $[(\$210,050,040 \times 7.0\%) - (\$210,050,040 \times 7.0\% \times 3.617\%)]$ .
- The recurring decrease in local sales tax collections, beginning in FY17-18, is estimated to be \$5,783,077  $[(\$210,050,040 \times 2.5\%) + (\$210,050,040 \times 7.0\% \times 3.617\%)]$ .
- According to Nielsen Company, total 2014 national over-the-counter sales of medicine are estimated to be \$30,824,000,000.
- Based on United States Bureau of the Census data, Tennessee population is estimated to be approximately 2.05 percent of the national population.
- Total over-the-counter sales of medicine in Tennessee are estimated to be \$631,892,000  $(\$30,824,000,000 \times 2.05\%)$ .
- Seventy five percent of such sales, or \$473,919,000, is estimated to be subject to the sales tax under current law.
- The recurring decrease in state sales tax revenue, beginning in FY17-18, is estimated to be \$31,974,415  $[(\$473,919,000 \times 7.0\%) - (\$473,919,000 \times 7.0\% \times 3.617\%)]$ .
- The recurring decrease in local sales tax collections, beginning in FY17-18, is estimated to be \$13,047,890  $[(\$473,919,000 \times 2.5\%) + (\$473,919,000 \times 7.0\% \times 3.617\%)]$ .
- The total decreases in state and local revenue as a result of this bill are estimated to be:
  - FY17-18: \$83,161,937 state; \$23,195,574 local;
  - FY18-19: \$142,861,380 state; \$26,076,105 local;
  - FY19-20: \$202,560,822 state; \$28,956,662 local;
  - FY20-21: \$262,260,265 state; \$31,837,219 local;
  - FY21-22: \$321,959,707 state; \$34,717,777 local;
  - FY22-23: \$381,659,150 state; \$37,598,334 local;
  - FY23-24: \$441,358,593 state; \$40,478,892 local;

- FY24-25: \$501,058,035 state; \$43,359,449 local;
- FY25-26: \$560,757,478 state; \$46,240,006 local;
- FY26-27: \$621,897,199 state; \$204,130,285 local; and
- FY27-28 and subsequent years: \$653,187,199 state; \$360,580,285 local.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/bs